



Directorate of
Intelligence

MASTER FILE COPY

**DO NOT GIVE OUT
OR MARK ON**

~~Secret~~

25X1

162

Latin America Review

25X1

15 August 1986

~~Secret~~

ALA LAR 86-020
15 August 1986

Copy 430

Page Denied

Secret

25X1

**Latin America
Review**

25X1

15 August 1986

Page

Articles**Mexico: Prospects for GATT Entry and Compliance**

1

25X1

25X1

President de la Madrid apparently has decided that membership in GATT is in Mexico's best interests and will push the necessary authorizing legislation through the political system, but the government probably will have difficulty complying with some provisions of the GATT agreement.

25X1

Cuba: Party Newspaper Embarrasses Castros

5

25X1

25X1

The official Communist party newspaper has contained graphic material in at least two issues in recent months that implied strong criticism of President Castro.

25X1

Cuba-US: Pressing to Resume Radio Talks

9

25X1

25X1

Havana is using the press, foreign journalists, and third country diplomats to signal its interest in resuming talks with Washington that the Cubans hope will produce an agreement allowing Cuban radiobroadcasts to the United States.

25X1

Colombia: Economic Challenges for the New Government

11

25X1

25X1

President Barco's new government is benefiting from an improving economy, but still must confront high unemployment, control inflationary pressures, and prevent mismanagement of a recent coffee price windfall.

25X1

Ecuador: Febres-Cordero and the Left Square Off

15

25X1

25X1

The leftist-dominated congress is expected, during its current session, to try to impeach key cabinet ministers, attack President Febres-Cordero's free market policies, and seek a moratorium on foreign debt payments.

25X1

Secret

ALA LAR 86-020
15 August 1986

Secret

25X1

Uruguay: Weak Export Prospects

19

25X1

25X1

Despite President Sanguinetti's efforts to make export growth the key to domestic recovery, exports are not expected to increase rapidly for at least several years.

25X1

Belize: Factionalism Plagues Opposition Party

23

25X1

25X1

Leftists are threatening the conservative leadership of the country's major opposition party.

25X1

Briefs

Cuba: Debt Rescheduling Difficulties

27

25X1

Argentina: Nuclear Disarmament Initiatives

27

25X1

Guatemala: Private Sector Concerns

28

25X1

Colombia: A Break With Tradition

28

25X1

29

25X6

31

25X1

Articles have been coordinated as appropriate with other offices within CIA. Comments and queries regarding this publication may be directed to the Chief, Production Staff, Office of African and Latin American Analysis

25X1

Secret

Secret

25X1

**Latin America
Review**

25X1

Articles**Mexico: Prospects for GATT
Entry and Compliance**

25X1

Mexico is on the verge of joining GATT, overcoming longstanding objections to membership. The agreement, signed by Commerce Secretary Hector Hernandez on 25 July, will go into effect automatically at the end of this month in time to allow Mexico to participate in the coming GATT ministerial meeting as a full member. We believe President de la Madrid has decided GATT membership is in Mexico's best interests and, unlike his predecessor in 1979, will push the necessary accession legislation through the political system, allowing little or no further discussion with groups still opposed to its passage. In our judgment, de la Madrid is counting on GATT entry to serve as a sign to the international economic community of Mexico's willingness to initiate economic reforms. We expect Mexico will have some difficulty complying with some of the provisions of its GATT agreement, however, particularly reduction of its highly protective import taxes and regulations. In addition, although Mexico City has endorsed the treaty, the process could still be sidetracked if debt negotiations with international bankers become stalemated. A rebuff from the international financial community, while unlikely now that Mexico and the IMF have come to terms, would precipitate a nationalistic reaction within Mexico, making it more difficult for the President to sell GATT membership.

Laying the Groundwork

At the beginning of his term in office, de la Madrid provided clear signs of his seriousness about liberalizing Mexico's protectionist trade regime to make Mexican goods more competitive internationally. The President's official and publicly proclaimed program hinged on eliminating regulatory barriers, maintaining a competitive exchange rate, and moving toward entry into GATT to obtain more

favorable terms from Mexico's major trading partners. His initiatives also projected a move from import licensing to tariffs, which he eventually planned to reduce in compliance with GATT regulations.

25X1

During his nearly four years in office, the President has made progress, but it has been forged as much by outside pressure as by voluntary action. Pressure from the IMF caused de la Madrid to eliminate some of the more onerous regulations imposed by former President Lopez Portillo. Permit requirements have been discontinued for about 90 percent of exports, and most export tariffs have been reduced or eliminated. Further prodding from the IMF led de la Madrid to announce in early 1985 that Mexico would liberalize its import regime by removing import license requirements for a number of products. This was followed up in July 1985 by the elimination of licenses for 90 percent of all import items.

25X1

A need to compensate for falling oil export revenues over the past year added impetus to de la Madrid's resolve to join GATT, according to the US Embassy. Last November he announced Mexico would begin serious negotiations with GATT member countries in preparation for entry this summer, in time to participate as a full member in a new round of negotiations to be launched in September in Uruguay. De la Madrid moved quickly to consolidate support within the Federal Chamber of Deputies, despite complaints from Mexico's national labor union and private business organizations. The President also publicly affirmed that Mexico was negotiating a \$500 million World Bank trade liberalization loan that would be contingent largely on GATT entry. These

25X1

Secret

ALA LAR 86-020
15 August 1986

Secret

announcements were accompanied by moves to make Mexico's exchange rate more competitive, a commitment to remove official reference prices on imports, and tariff reductions on a number of items.

Marketing GATT Domestically

Anticipating a negative reaction from domestic labor and some business organizations, de la Madrid and Commerce Secretary Hernandez have spearheaded a nationwide campaign to highlight the benefits of joining GATT and the concessions obtained by Mexico in negotiations over entry. They pointed out that entry in August would allow Mexico to join other developing nations this fall in pressing for greater access to developed country markets. Mexico City already has joined a "Group of 20" moderate developing countries in formulating an agenda for the coming trade negotiations. Secretary Hernandez stressed that Mexico City successfully argued for developing-nation status and special recognition of the sensitivity of the country's agriculture and energy sectors.

We expect Mexican officials to soften resistance to GATT entry among domestic industries by committing the government's help to ease the transition. Mexico City already has announced it will spend almost \$5 billion to promote exports of nonpetroleum products. According to Secretary Hernandez, the program will concentrate on loans to increase production, export competitiveness, and imports of raw materials and industrial equipment. The Commerce Secretary also has vowed to reduce or remove taxes and duties that make Mexican products less competitive abroad. Changes in foreign exchange rules are slated to allow exporters to use 100 percent of the foreign currency earned from sales to pay for imports.

We believe de la Madrid almost certainly is meeting privately with prominent business leaders to allay fears their companies may be shut down by competition from cheaper foreign products. He is likely to stress that Mexico City will continue to apply taxes and surcharges on imports that directly compete with domestic goods. We expect the President also will promise to push for justification under GATT

regulations for temporary import quantity restrictions in areas where companies become threatened.

Prospects for Passage

There appear to be no major obstacles to joining GATT this summer, according to a wide variety of US Embassy sources.

Now that GATT members and Commerce Secretary Hernandez have signed the agreement, de la Madrid plans to request immediate ratification by the Federal Chamber of Deputies when it reconvenes on 1 September.

Mexico's change in attitude toward GATT entry over the past year, stems largely from the realization that the country no longer can depend on petroleum revenues to boost economic growth. In 1979, in the midst of an oil boom, Lopez Portillo could easily afford to declare Mexico's prospective GATT protocol unacceptable because it would impinge on the country's ambitious development plans. Now, however, de la Madrid has stated Mexico's prospects for development depend almost exclusively on boosting sales of nonpetroleum products.

Local business leaders, in general, support entry into GATT. The strongest private-sector support comes from the large manufacturers in Monterrey, Mexico's biggest industrial city. Many factories are operating well below capacity and are counting heavily on government export loans and the opening of new overseas markets. On the bilateral front, we believe that a number of companies are depending on GATT entry to help gain favorable trade concessions from Washington. Opposition to entry by small and medium size firms in the agriculturally based Guadalajara area may have been at least partially

25X1

25X1

25X1

25X1

25X1

25X1

25X1

25X1

25X1

25X1

Secret

Secret

neutralized by language in the GATT agreement recognizing Mexico's interest in protecting its vital agricultural sector, according to the US Embassy. []

Complying With Tough Entry Terms

De la Madrid has agreed to a much stricter interpretation of GATT principles than Lopez Portillo had negotiated in 1979. According to members of the US negotiating team, Mexico City agreed to drop demands for special concessions when government officials became convinced that holding out would delay entry past the August deadline for participation in the next negotiating round. Mexico eventually accepted the standard terms of accession. The only other concession Mexico gained, according to the draft protocol, was specific note of the country's present status as a developing country. This allows Mexico to apply restrictions and raise tariffs on imports if they threaten domestic industries, the country's foreign reserve position, or implementation of the government's National Development Plan or its sectoral and regional programs. []

In our judgment, Mexico City probably will attempt to comply with most of the basic terms required of GATT members. Mexico will find it relatively easy to stay within the 50-percent tariff ceiling imposed by the accession agreement—most of the country's tariffs already are at or below this level. The government has gone far toward reducing the number of items requiring import permits. We believe, on the basis of US Embassy [] reporting, government officials probably will argue that the remaining permits—controlling about one-third of the value of total imports—are needed to protect domestic industries from excessive competition. Mexico almost certainly will take advantage of the eight-year time period allotted to reduce surcharges on imported goods. []

Despite the general willingness to conform to GATT regulations, de la Madrid will have difficulty adhering to some of the terms. In our view, Mexico City is unlikely to keep its reluctant promise to eliminate its controversial official pricing system—a mainstay of the government's import restriction policy—without instituting other protective measures to ensure what

the government considers to be an adequate level of protection. The government still depends greatly on official prices to keep imports from undercutting domestic industries, and has indicated to local businessmen that it will continue to use pricing yardsticks, according to the US Embassy. By the same token, Mexico will find it difficult to comply with the four nontariff barrier codes (licensing, customs valuation, antidumping, and technical standards) and the code for subsidies and countervailing duties. []

Rejection Still Possible

Mexico City, even at this late stage, still could change its mind at the last moment and refuse the GATT entry offer. While unlikely to happen now that the protocol is signed and the IMF and Mexico have come to terms, should negotiations with international bankers be stalemated, Mexico probably would be tempted to use GATT entry as a negotiating pawn. De la Madrid almost certainly would argue that Mexico could not be expected to proceed further with import liberalization without inflows of new money to finance the resulting increases in foreign purchases. A rebuff from the international financial community probably would precipitate a nationalistic reaction within Mexico, making it exceedingly difficult for the President to be seen as submitting the Mexicans to the dictates of the developed countries—particularly the United States—by joining GATT. In such a case, de la Madrid could choose to throw the issue open for public discussion—as Lopez Portillo did in 1979—encouraging groups within Mexico publicly to oppose GATT entry. []

Implications for the United States

De la Madrid is likely to present Mexico's membership in GATT to foreign creditors and government officials as a significant sign of his country's seriousness about economic reform. Members of Mexico's foreign bank advisory committee, [] view GATT entry as a crucial test of Mexico's willingness to adopt pragmatic solutions to the country's financial problems. []

25X1

25X1

25X1

25X1

25X1

25X1

25X1

25X1

Secret

Secret

Mexico City almost certainly will use GATT entry to push for greater access to US markets. Officials are likely to argue that US pressure to accede to GATT will impose a burden on Mexico and that it, therefore, should be compensated for reversing its trade policies. Mexican negotiators probably will try to capitalize on US interest in Mexico's GATT entry by pushing for liberalized treatment of Mexican exports of winter vegetables and fruits, a relaxation of restrictions on meat and textile shipments, or improvement in the US Generalized System of Preferences, especially in the competitive need limitations.

25X1

25X1

Secret

Secret

Cuba: Party Newspaper Embarrasses Castros

25X1

On two or three occasions since 2 May, *Granma*, the official daily newspaper of the Central Committee of the Cuban Communist Party, has carried precisely placed graphic material that implied stinging criticism of President Fidel Castro. One also involved Armed Forces Minister Raul Castro. The question—apparently still undecided—of whether the placement of the material was deliberate or accidental seems to have had little bearing on the impact of the incidents on the Cuban people. In a statement at the Central Committee plenum in mid-July, Fidel acknowledged two of the incidents and admitted they had caused a public “uproar.” While he downplayed them as accidental, he can take little comfort in the fact that, at a time of deepening economic crisis and popular disillusionment, the country’s most influential newspaper has inexplicably had more than one such accident after 20 years without any similar incidents.

embarrass Fidel.

25X1

25X1

Skull and Barbed Wire

A reader perusing the 2 May edition of *Granma* can see on page six a seemingly innocuous photograph of Fidel and other top party officials leading the annual May Day parade into the Square of the Revolution in Havana. On the reverse of the photograph, however, is a hand-drawn illustration for an accompanying TASS article on the “irreparable damage that nuclear testing has caused in Nevada” in the United States. The illustration consists of a skull and crossbones hovering over a cyclone fence topped with barbed wire. When the photograph of the May Day parade on page six is held up to a source of light, the skull and crossbones—precisely placed—shows clearly through on Fidel’s chest, and the barbed wire runs from one hand to the other.

The effect created by the two graphics is dramatic. The juxtaposition of the two could, as Fidel told the Central Committee plenum, be simply the result of an accident. The degree of precision required to obtain the striking effect, however, argues that the placement was a deliberate, calculated attempt to

Fidel Versus Raul

Another incident occurred in the 4 July edition of *Granma*. A straightforward, two-line headline on page one reads in Spanish “‘These Are Times of Work, Efficiency, and Sacrifice’- Fidel.” Underneath is a photograph of Fidel accepting a pledge from a worker while three onlookers, including Raul, applaud. When the paper is folded twice in the customary fashion of most Cubans, however, the headline is reduced to a segment that reads in Spanish “Down (with) Fidel” over the picture of Raul applauding with a wide smile. As with the 2 May incident, this may simply have been a coincidence, but, even so, it caught the attention of enough Cubans to—in Fidel’s own words—cause an uproar.

25X1

25X1

When Fidel commented on the 4 July incident at the plenum, he mentioned only the truncated headline. It was Raul who interrupted him to point out the placement of the photograph and his seemingly jubilant demeanor. By volunteering the additional information that put him in a compromising position vis-a-vis Fidel, Raul tacitly acknowledged that the incident had embarrassed him to the point of political discomfort.

25X1

Der Fuhrer

A third illustration subtly disparaging Fidel appeared in *Granma* on 7 June, according to a Western press report from Havana. Front page coverage of his address to Interior Ministry personnel on the Ministry’s anniversary included a photograph of Fidel in uniform with his arm raised “in a manner that

25X1

Secret

ALA LAR 86-020
15 August 1986

Secret

2 May



4 July

ESTOS SON TIEMPOS DE TRABAJO, EFICIENCIA Y SACRIFICIO.-Fidel

Apoya la Asamblea Nacional todas las medidas del Partido, estatales y jurídicas para erradicar los errores en la economía y la planificación

● Presiden Fidel, Raúl y otros miembros del Consejo de Estado ● Aprobado el informe de rendición de cuenta de la Industria Básica, entre otros documentos ● Felicitación a sus trabajadores, técnicos y dirigentes por la labor realizada en estos años

● **ESTOS SON TIEMPOS DE TRABAJO, EFICIENCIA Y SACRIFICIO.** Así lo expresó el Comandante en Jefe Fidel Castro, Primer Secretario del Comité Central del Partido y Presidente de las Comisiones de Estado y de Ministros, en una de sus intervenciones durante la primera jornada del V período ordinario de sesiones de la Asamblea Nacional del Poder Popular, iniciada ayer en el Palacio de las Convenciones.

Al pronunciar las palabras de apertura del período, Héroles Bravo, miembro del Comité Central y presidente del órgano supremo del poder del Estado, planteó que la Asamblea Nacional apoya con todo su vigor todas las medidas del Partido, estatales y jurídicas que se tomen para erradicar errores cometidos en la economía, en la planificación y en la producción, que han sido denunciados por el Comandante en Jefe Fidel Castro en sus últimas intervenciones.

Presidieron esta primera sesión, además, el General de Ejército Raúl Castro, Segundo Secretario del Comité Central y Primer Vicepresidente de las Comisiones de Estado y de Ministros, y otros integrantes del Consejo de Estado.

Durante la sesión matutina se aprobó el informe de Rendición de Cuenta del Consejo de Estado contra otros documentos, y comenzó el debate de la rendición de cuenta del Ministerio de la Industria Básica.

● PRIMERA SESIÓN DE TRABAJO

Con los símbolos patrios desplegados en el alto del escenario y el Himno Nacional sonado de pie por 453 Orquestas —un auditorio del 91.7%— comenzó la sesión matutina.

Las primeras palabras correspondieron a Héroles Bravo, quien adelantó al planearse guardar un minuto de silencio por los Diputados Neri Zubizarri Mir y Cristóbal Miranda González, valerosos y queridos compañeros recientemente fallecidos.

Interfirió Flavio oficialmente a la Asamblea de la incorporación de cuatro nuevos Diputados, quienes minutos antes de iniciarse la sesión habían jurado y tomado posesión de sus cargos. Son ellos: René Anillo García, elegido por el municipio 10 de Octubre, Juan Carlos Olivera, elegido por Playa, Félix Pérez Millán, por Santa Clara, y Ramón Pex Ferrer, por Cienfuegos, a los cuales se les dio la bienvenida al órgano supremo del poder del Estado.

Presididamente el Presidente de la Asamblea explicó que las cosas a las que tienen lugar suponen el trabajo en la construcción de las Comisiones Permanentes. Propongo, en esta ocasión, que Antonio Armas, miembro de la Comisión de Comercio, Servicios, Construcción y Turismo, como a partir de ahora la presidencia de la Comisión de Trabajo y Seguridad Social, sustituya la vacante anteriormente



que han facilitado algunos de los problemas que hoy enfrentamos. Llamó a los Diputados a estudiar responsablemente los documentos que les corresponden, a preparar, en cada momento, el trabajo, a no perder tiempo para poner las cosas necesarias a las intervenciones, a las resoluciones y a las decisiones que son necesarias.

En la continuidad de sus palabras, Héroles Bravo indicó que es necesario que tengamos que trabajar o realizar algunas cosas. En este sentido, no debe y no puede ser la Asamblea, teniendo en cuenta lo que forma una "sociedad joven en democracia" luchando por su mejoramiento. Además, cuando se dice que los futuros proyectos que se van a hacer, se deben de tener en cuenta a los datos en su ejecución, a la implementación o a lo que quieren vivir del trabajo de los demás, o que el mismo ideal, cuando el principio socialista de que a cada uno correspondiendo una retribución de acuerdo a la calidad y al trabajo que aporte a la sociedad.

Nuestro período de sesiones, cuando el período de la Asamblea, no puede permanecer sin que todos los temas que han sido expuestos por el Comandante Fidel, por la dirección de nuestra Patria y del mundo, por la amplia masa trabajadora. Nuestra Asamblea Nacional para concluir, no puede sino apoyar con todo su vigor las

Party Newspaper Layouts

Secret

Secret

25X1

looks unmistakably like a fascist salute." In the background, the word "ario" (Aryan) is visible—a remnant of the word "aniversario" (anniversary) that apparently was cropped during the newspaper's layout process. []

In Fidel's own vocabulary of derogatory epithets, the characterization "Nazi" is not used loosely; it is especially reserved for those political figures whom he has chosen to portray Cuba's, and indeed mankind's, most heinous enemies. There can be few Cubans who are unaware of the depth of feeling he is expressing when he uses such terminology. A photograph artfully casting him in the role of a Nazi, therefore, carries a particularly potent message to the Cuban population. []

Implications

Layout gaffes can occur in any newspaper. What is unique about the three described above, however, is the fact that all three focused specifically on Fidel and all did so in a biting, politically embarrassing fashion. Moreover, if the 2 May photograph caused an "uproar" and presumably sensitized *Granma's* editors to the problem, how could they have allowed two similar gaffes to escape their scrutiny on 7 June and 4 July? []

Granma has been published since October 1965 and, until now, had no precedent for political bombshells in the form of layout mistakes. In light of that record and given the propensity of Cubans to sense a conspiracy whenever untoward events occur, it is likely that many will view the gaffes as a conscious and remarkably daring effort by sources within the party to embarrass Castro. Fidel admitted at the plenum that the public's faith in *Granma* personnel had been jolted, and we presume his own trust was shaken as well. []

If the gaffes were accidental, they are likely to have only fleeting impact. While feeding suspicions during a time of increasing popular tension over the grim economic trend, they probably also provided a certain amount of comic relief that was particularly appealing to the average Cuban's sense of humor. If, on the other hand, they were deliberate, they may prove damaging over the long term. They almost certainly would represent the work of more than one person, would be repeated from time to time, and—if permitted to continue—would acquire a following among the growing ranks of the disenchanted. In either event, however, we do not see them as representing any significant threat to Castro. They are clever—and no doubt irritating—pinpricks that twit an otherwise humorless regime, but, even if they spark emulation in other elements of the Cuban media, they do little more than cause temporary embarrassment; we do not see them as the cutting edge of any organized opposition to the regime. []

25X1

25X1

25X1

25X1

25X1

25X1

Secret

**Cuba-US: Pressing to
Resume Radio Talks**

25X1

Havana apparently is eager to reach an agreement with Washington that would permit Cuban radio-broadcasts to the United States. Deputy Foreign Minister Alarcon has persistently publicized Havana's desire for such broadcasts, suggesting that he is under intense pressure from President Castro to resume negotiations with Washington on the issue. Alarcon, who headed the Cuban delegation to the migration/radio talks with the United States in Mexico City in early July, has used the press, foreign journalists, and third country diplomats to signal Cuba's interest in resuming the aborted discussions, according to the US Interests Section in Havana. One newsman told the Interests Section that Alarcon suggested the possibility of buying time for Cuban broadcasts on a radio station in the midwestern United States as a way to bypass the problem of mutual interference.

Alarcon's dogged efforts to focus external attention on the radio issue are unusual. We suspect he may have overstepped his instructions in Mexico City when he broke off the talks without an agreement. On his return to Havana, he apparently was told to revive the talks quickly. When his initial press release failed to draw a response from the United States, he resorted to indirect diplomatic channels, fully expecting the word would be passed to Washington. Two days after President Castro's 26 July speech blasting the United States, Alarcon met with the foreign press to indicate the "door is still open" to bilateral talks.

We doubt Alarcon would be so persistent unless he were under strong urging from Castro to get negotiations back on track. A solution to the issue would allow Castro to reverse his cancellation of the 1984 migration agreement without losing face, and give him a much-needed safety valve to bleed off popular pressures that are certain to rise as economic conditions deteriorate. We believe his insistence that the initiative for a resumption appear to come from Washington is also a face-saving device.

25X1

It is unlikely that Alarcon was serious about leasing time on a radio station in the midwest. Such an effort would raise the issue of reciprocity and we see no indication that Castro would permit Washington to lease time on any radio stations in Cuba's interior.

25X1

25X1

25X1

Secret

ALA LAR 86-020
15 August 1986

Secret

Chronology of Cuba/US Migration/Radio Talks**14 December 1984***Cuba-US migration agreement reached in New York.*

25X1

20 May 1985*Castro terminates migration agreement as Radio Marti begins broadcasts.***8-9 July 1986***Bilateral talks on radio- broadcasts to United States held in Mexico City; no agreement.***11 July 1986***Cuban Foreign Ministry press release on talks avoids polemics; notes meeting was held in "atmosphere of mutual respect."***28 July 1986***Alarcon briefs foreign newsmen visiting Havana, says:*

- *Washington lacks political will for an agreement.*
- *Solution of migration issue hangs on resolving the radio issue.*
- *Cuba does not want to interfere with US radio stations.*
- *"Door is open" to resumption of talks.*
- *Cuba needs a clear channel in the present broadcast band.*
- *Cuba perhaps could eventually lease time on a US midwest radio station to resolve the interference problem.*

25X1

Havana's Prensa Latina publishes comments of "high" Cuban official—undoubtedly Alarcon—signaling interest in resuming radio talks.

25X1

Secret

Secret

Colombia: Economic Challenges for the New Government

25X1

President Vigilio Barco, who took office this month, is benefiting from an improving economy. The recent coffee price windfall and government stabilization measures have slowed inflation, strengthened the external accounts, and boosted economic growth. The new President, nonetheless, needs to tackle high unemployment, control inflationary pressures, and prevent mismanagement of the coffee bonanza.

25X6

Barco Takes Charge

In his campaign, Barco emphasized the need for agricultural and industrial development, economic diversification, and increased foreign investment. He promised to create jobs, accelerate agrarian reforms, and improve provision of basic services. He believes the expansion of agricultural production could help offset rural insurgency by offering employment opportunities for landless peasants who have been natural recruits for the guerrilla groups that have plagued the country for nearly 40 years. Barco is also likely to increase government spending in health, education, and communications, and at least continue construction of low-cost housing projects. We believe Barco will court foreign investors to accelerate economic growth and facilitate the transfer of technological expertise. At a recent meeting with foreign oil company officials, for example, the President reportedly was receptive to new investment offers.

25X1

Current Situation

Economic stabilization has had significant impact in stimulating economic recovery from the stagnation that greeted President Betancur four years ago. Lower government spending and new taxes cut the public deficit in half in 1985. Leading Colombian firms refinanced their foreign debts, reducing the erosion of foreign exchange reserves by \$100 million a month

. The ailing financial system—which has long suffered from the private-sector borrowers' lack of liquidity, and insider loans made by the banks—is in better shape

than a year ago and domestic interest rates are set by market forces. Relaxed import controls have reduced shortages of manufacturing and agricultural inputs. The subsequent impact on prices has helped keep inflation at 10 percent for the first six months of 1986—the government's goal is 22 percent for the year.

25X1

The rebound in world coffee prices and lower world interest rates this year have improved Colombian external accounts. New oil production has made the nation self-sufficient, eliminating \$300 million in yearly oil import bills. Moreover, oil and coal exports will be roughly double last year's level. During the

25X1

25X1

25X1

25X6

Secret

ALA LAR 86-020
15 August 1986

Secret**Foreign Financing Gap***Million US \$*
(except where noted)

	1982	1983	1984	1985 ^a	1986 ^b
Current account balance	-2,885	-2,826	-1,994	-1,305	-320
Trade balance	-2,076	-1,317	-312	9	1,365
Exports, f.o.b.	3,282	3,147	3,668	4,036	5,630
Of which:					
Coffee	1,577	1,536	1,799	1,575	2,735
Oil	279	378	445	300	600
Coal	—	—	—	104	240
Imports, f.o.b.	5,358	4,464	3,980	4,027	4,265
Net services and transfers	-809	-1,509	-1,682	-1,314	-1,685
Interest on debt	649	739	1,086	1,112	1,120
Debt amortization	429	636	700	767	950
Financial gap	-3,314	-3,462	-2,694	-2,072	-1,270
Direct investment	337	514	411	729	450
New medium- and long-term capital inflows (<i>net</i>)	1,322	983	1,278	1,173	1,870
Short-term capital and errors and omissions (<i>net</i>)	314	-449	-848	73	1,105
Other financial items					
External debt at end of year	10,287	11,035	11,035	11,966	13,000
Short-term debt	3,109	2,872	2,230	1,966	2,000
Debt service ratio (<i>percent</i>) ^c	32	29	33	34	43
Foreign exchange reserves at end of year ^d	3,861	1,901	1,364	1,595	2,500

^a Estimate.^b Projection—assumes Bogota maintains its stabilization program.^c As a share of exports of goods and services.^d Excludes gold.

12-month period ending in May, coffee earnings and capital repatriation—in response to more attractive domestic interest rates—have pushed foreign exchange reserves up 43 percent to about \$2 billion.

Nonetheless, Colombia's two-year stabilization program has slowed the domestic economy. Official statistics released in March indicate that real GDP grew only 2.5 percent in 1985, down from 3.2 percent in 1984, as a result of austerity policies that reduced consumer demand. Mining and construction revived this spring, but agriculture and commerce remain depressed and unemployment is at a record 15 percent. Bogota has issued bonds and accelerated

payments for imports and debt service to regulate the excessive amount of money, generated by the coffee windfall, that is circulating in the economy. Although these effective mechanisms of monetary stabilization have taken out of circulation an amount of pesos equivalent to about \$260 million since January, the amount of money circulating in the economy is growing at an average annual rate of 38 percent—the highest rate since 1978.

Prospects

Strong external accounts should facilitate Colombia's economic growth through next year. Most

Secret

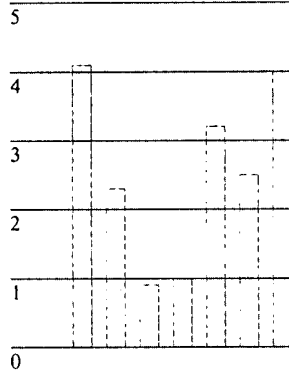
Secret

Colombia: Selected Economic Indicators, 1980-86

Note scale change

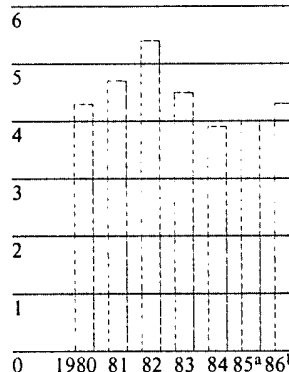
Real GDP Growth

Percent



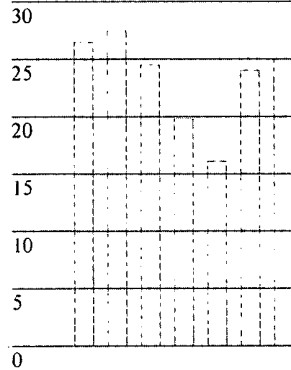
Merchandise Imports

Billion US \$, f.o.b.

^a Estimated.^b Projected—assumes Bogota maintains its stabilization program.^c Unemployment rate at end of year.^d As a share of GDP.

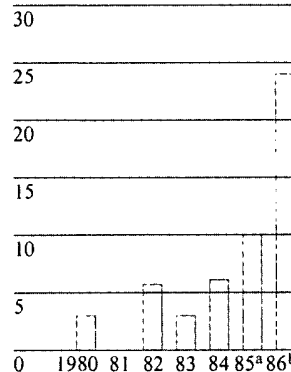
Consumer Price Inflation

Percent



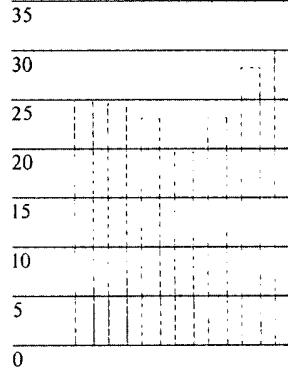
Real Urban Minimum Wage

Percent

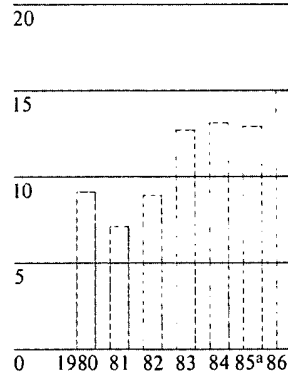


Money Supply Growth

Percent

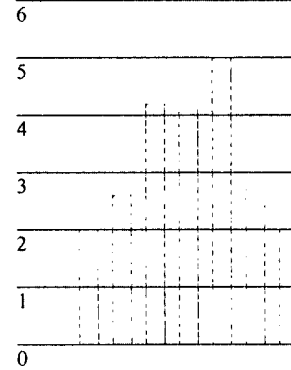
Unemployment Rate^c

Percent

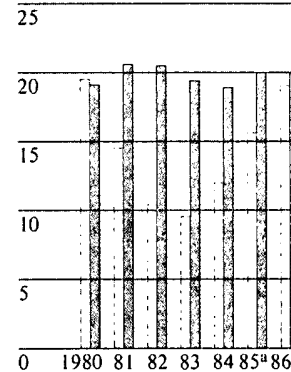


Government Deficit as a Share of GDP

Percent

Gross National Savings and Gross Capital Formation^d

Percent



□ GNS

■ GCF

310171 8-86

25X1

Secret

Secret

econometric services forecast GDP growth at 4 percent for 1986, a \$1 billion loan is on tap from international bankers, and a voluntary—and successful—stabilization program monitored by the IMF is in place. The new President's greatest fiscal challenge will probably be to limit inflation and prevent mismanagement of the coffee bonanza, which may produce \$3 billion in foreign exchange earnings this year. Despite the government's success in keeping inflation down during the first half of this year, gains in wages and a flexible devaluation policy may result in an annual rate of about 25 percent. The chief danger is a pattern of short-term planning that has characterized previous Colombian macroeconomic policymaking under similar circumstances and contributed to a serious weakening of the economy during the last coffee boom (1976-78). []

Colombian agriculture has significant potential for expansion and diversification. The World Bank recently granted \$425 million in loans to strengthen the agricultural sector. Barco's integrated rural development program is aimed at increasing food production and alleviating rural unemployment. Insurgent activity, particularly in Cauca Department, has hampered the past efforts of government agencies to implement rural development projects, however, and will pose obstacles to Barco's program. []

Implications for US Interests

US commercial interests would benefit from a sustained recovery in Colombia—the third largest US export market in Latin America. We foresee increased opportunities for US sales as a result of Bogota's import liberalization and improved foreign exchange situation, continuing the upturn that started

Impact of Narcotics and Other Contraband on the Economy

The US Embassy reports that, as a percent of GDP, illegal earnings from cocaine and marijuana smuggling have increased since mid-1985. The estimated annual value of illegal drugs produced or processed in Colombia has fluctuated from \$400 million to at least \$1.6 billion over the past five years, [] Illegal earnings from the drug trade were equivalent to about 20 percent of total legal exports in 1985, up from 12 percent in 1983, but not all these revenues returned to Colombia. Illicit drugs do not account for all the contraband exports, but drug earnings are Colombia's second most important source of foreign exchange after coffee. In addition, the US Embassy reports that illicit imports—mainly smuggled consumer goods—financed by drug money probably amounts to \$400-500 million a year. []

25X1

25X1

25X1

late last year. Because of the need to diversify exports, the Barco government probably will criticize US countervailing duty actions on Colombian goods, including textiles and cut flowers. On the regional debt front, Bogota's willingness to adopt IMF-monitored policies and good macroeconomic management record could serve as role model for other Latin American debtors. Nevertheless, guerrilla attacks on oil facilities and other economic targets will continue to discourage foreign investment, despite Barco's plans to attract new capital. []

25X1

25X1

25X1

Secret

Secret

Ecuador: Febres-Cordero and the Left Square Off

25X1

The leftist-dominated congress will confront President Febres-Cordero with stiff political challenges in the two-month session that began on 10 August. Several opposition leaders have said they will try to impeach key cabinet ministers and attack the government's free market policies. They also plan to press for a moratorium on foreign debt payments. The tough-minded President can be expected to fight back by rallying his support with the military and business community, but may be unable to regain the legislative initiative before his term ends in 1988.

25X1

[redacted]

Background

The political system in Ecuador is highly fragmented with parties and labor groups running the gamut from far right to far left. Politics are dominated by the elite, and personal feuds and regional antagonisms are frequently as important as ideological distinctions. Febres-Cordero's administration has been marked by personal and frequently bitter clashes between the President and his enemies in congress. He has a longstanding rivalry with his predecessor, President Osvaldo Hurtado—who heads the center-left Popular Democracy party—and he has been unwilling to reach any accommodation with Rodrigo Borja, his primary opponent in the 1984 presidential election and leader of the opposition Democratic Left party.

25X1

[redacted]

In the first two years of his administration, Febres-Cordero employed whatever tactics he deemed necessary to bypass strong congressional opposition to enact his conservative agenda. He frequently chose to circumvent legislative deadlock by using powers that many charged were extraconstitutional. A temporary breakthrough was achieved last year, when Febres-Cordero outmaneuvered the leftists by forming ad hoc alliances to create a congressional majority bloc—uniting center-rightists with independents and two centrist parties.

25X1

The left waged a hard and well-organized campaign for the congressional election last June. Most opposition candidates took advantage of the sharp decline in oil revenues—which hit early this year—to accuse the President of mismanaging the economy and being subservient to Washington, the IMF, and foreign banks. They also criticized his failure to implement the housing and employment program he had promised in his presidential campaign as evidence of his lack of social concern.

25X1

In an attempt to counter the left, Febres-Cordero scheduled a national referendum to allow independents, who he believes contributed strongly to his 1984 victory, to run for office without party sponsorship. The opposition, however, turned the plebiscite into a vote of confidence in the government by successfully arguing that passage would allow the President to ignore congress and continue with authoritarian tactics. Some 60 percent of the voters rejected the proposal.

25X1

The Current Challenge

The new congress is firmly in the hands of center-left and Marxist parties that won 42 of the 71 seats at stake. Although ideologically disparate, the leftist parties have formed a "progressive bloc" and have coordinated plans to control important congressional posts and hamstring the President.

25X1

[redacted] Major leftist objectives include [redacted]

25X1

25X1

25X1

25X1

Secret

ALA LAR 86-020
15 August 1986

Secret

25X6



The congress also will probably press for a moratorium on foreign debt payments and may try to overturn free market economic legislation enacted in the past two years. Any attempt by the President to implement new austerity measures would meet strong opposition in the legislature and could provoke street riots—given the opposition's ties to radical student and labor groups. [redacted]

Febres-Cordero's Response

Although Febres-Cordero has lost considerable ground, he will probably try to use his considerable support within the military and the business community and is likely to make important concessions to both sectors. [redacted]

[redacted] the President may appoint military officers to

key cabinet posts to dissuade the opposition from harassing and removing ministers. US Embassy sources have suggested he will use financial patronage—for example, his power to funnel federal spending into selected congressional districts—to divide the opposition and to attract support. [redacted]

Outlook

Even if Febres-Cordero's tactics succeed, he is unlikely to regain the political initiative. The chief danger is that he will resort to the arbitrary use of presidential powers to protect his administration. The political backlash against his brusque, high-handed style of leadership weighed heavily against the

25X1

25X1

25X1

25X1

Secret

25X6

25X6

25X1

Page Denied

25X1

25X6

25X6

25X1

Congressional Schedule

- *Ordinary Session—10 August to 9 October 1986*
- *Organization of Congress—11-15 August election of congressional officers and the standing committees that serve as a "mini-Congress" after the ordinary session.*
- *Interpellation of Ministers—late August—not likely to occur because of notice that must be given to ministers and the marshaling of majority votes necessary to remove government officials.*
- *Consideration of Amnesty—mid-September—with growing military opposition to this controversial issue and the probable difficulties to be encountered in the interpellations, the opposition is not likely to push this issue until late in the ordinary session.*



25X1

government in the recent legislative election, and he risks setting the stage for a leftist victory in the 1988 presidential contest if he continues along such lines.



25X1

Secret

Uruguay: Weak Export Prospects

25X1

President Sanguinetti—who last year inherited a depressed economy and large foreign debt—has chosen export growth as the engine for domestic recovery and the key to keeping up with interest payments. Despite initial steps to improve export competitiveness, Uruguay still depends on the fluctuating world demand for its traditional agricultural products. Therefore, we do not foresee strong export growth for at least several years—until world prices for those products recover or Uruguay diversifies its exports. While we expect the economy to expand this year, the role of exports in spurring growth probably will be modest. Beyond 1986, stymied export development may prompt Montevideo to heighten demands for trade concessions and financial assistance from Washington.

Export Performance in Perspective

Falling world demand for its traditional agricultural exports and an inefficient, highly interventionist public sector have stalled Uruguay's economic growth over the past generation. The US Embassy reports that a brief period of GDP and export growth abruptly ended in 1982, when the debt crisis and a world recession caused demand for Uruguayan goods to plummet in both South America and the OECD countries. By the time Sanguinetti took office in March 1985, GDP had fallen 16 percent in the previous three years, exports had declined by more than one-third, and inflation had quadrupled to 80 percent.

Although Sanguinetti soon announced plans to promote exports, foreign sales (90 percent of which consisted of agricultural products) declined by 8 percent last year. Government statistics indicate trade revenues fell most of the year, dragged down by tumbling meat and wool exports, which for decades had been Uruguay's main source of foreign revenues. A surge late in the year led by more diversified products—rice, fish, and textile manufactures—recovered part of the lost revenues. IMF reports indicate these newer products have fared better than

Uruguay: Current Account Trends *Million US \$* 1984-87

	1984	1985 ^a	1986 ^b	1987 ^b
Current account	-124	-135	-91	-39
Trade	166	130	176	215
Exports	925	845	884	959
Imports	758	715	708	744
Factor services (<i>net</i>)	-362	-356	-349	-340
Other	71	92	83	86

^a Estimate.^b Projection.

Source: IMF statistics.

25X1

25X1

beef and wool, and now bring in two-thirds of all export revenues.

25X1

Several external factors have shifted Uruguay's trade patterns since 1982. Growing protectionism in the European Community, financial crises in Argentina and Brazil, and exports denominated in the strong US dollar, have driven down sales to Europe and to Uruguay's neighbors. Meanwhile, US purchases have risen by 70 percent, making the United States Uruguay's largest customer. Also, Uruguay has entered into more countertrade agreements to gain access to new markets and conserve foreign exchange. For example, according to press reports, a food-for-oil agreement has made Iran one of Uruguay's largest trading partners. Further press reports indicate that growing trade with China may soon be augmented with countertrade deals.

25X1

25X1

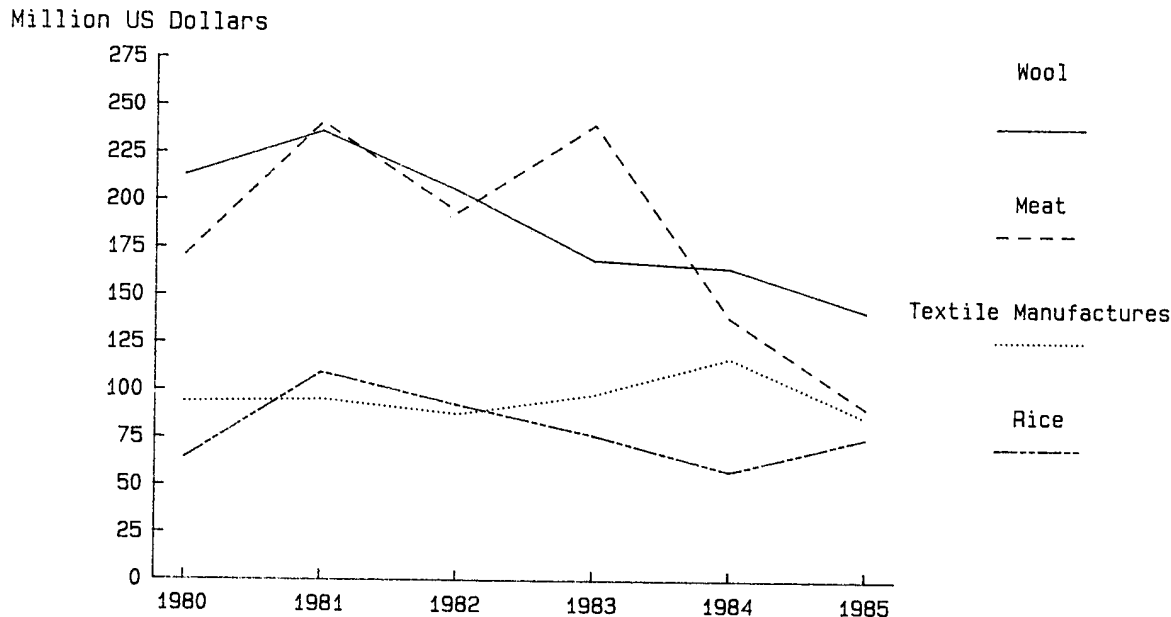
Export Imperative

Sanguinetti, according to the US Embassy, has pinned hopes for economic recovery—or at least

Secret

ALA LAR 86-020
15 August 1986

URUGUAY: SUMMARY OF EXPORTS, f.o.b.



continued ability to service the foreign debt—on export-led growth. Last year Uruguay's foreign debt reached \$4.7 billion—the highest debt per capita in South America—with principal and interest payments equivalent to about five times annual exports or 90 percent of GDP.

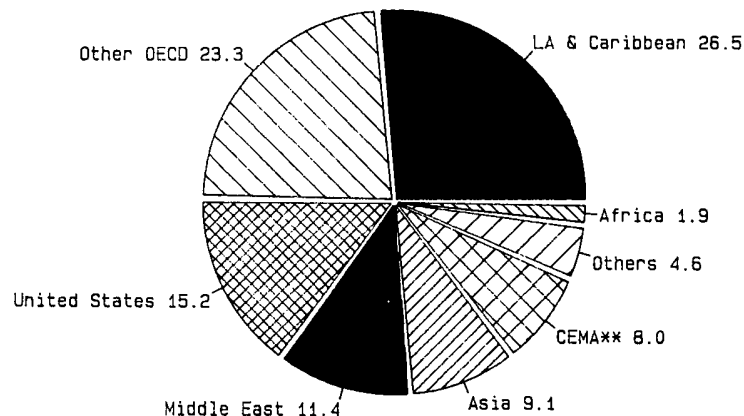
Montevideo asserts that its floating exchange rate policy is boosting exports and has criticized the previous military regime's use of preannounced small devaluations. According to the US Embassy, Finance Minister Zerbino claims that the devaluations did not keep pace with inflation, resulting in an overvalued exchange rate, a drop in export competitiveness, and an increase in Uruguay's imports because local firms were unable to compete. Nevertheless, the depreciation during Sanguinetti's term has hampered

production in sectors heavily dependent on foreign inputs. Uruguayan farmers have complained, for example, that the exchange rate policy makes needed imports—such as US fertilizers and equipment—too costly.

While Montevideo has enacted several laws to encourage exporters, the Embassy reports the government has not enacted the basic structural reforms needed for Uruguay to compete effectively in the world economy. For example, the press has reported that the State Meat Institute's intervention in the livestock industry has curtailed rather than promoted beef exports. The government has done nothing to redress the industry's chief problems—high

Secret

URUGUAY: EXPORT MARKETS, 1985*
Percent



*Source: Central Bank of Uruguay
**Council for Mutual Economic Assistance

25X1

processing costs, obsolete equipment, and poor management. Businessmen, according to the Embassy, frequently cite ponderous bureaucratic regulation, their lack of representation in the main political parties, and the government's tendency to change export rules and incentives quickly as impediments to entrepreneurs. They point out that Sanguinetti did not even consult business leaders before launching his national plan for export-oriented growth. The government, however, has made marginal progress in this area, and exporters now benefit from reimbursement of some indirect taxes, duty-free import of component materials for several export products, and subsidized trade credits. []

Montevideo also has been promoting exports through trade accords with neighboring countries and with

new first-time trading partners outside of the region. The press reports that Uruguay has signed accords over the past eight months with Brazil, Argentina, and Mexico to stimulate bilateral trade. In addition, last month Montevideo signed a three-year agreement with Havana, giving each country most-favored-nation status regarding trade related regulations, although the US Embassy reports that Uruguayan officials expect hard currency shortages to limit trade.

[] Montevideo may also establish diplomatic ties to China to increase wool and food sales. []

25X1

25X1

25X1

25X1

Secret

Secret**Prospects**

We estimate that lower oil prices, falling interest rates, record tourist receipts, and funds from last year's accords with the IMF and commercial banks will ease Uruguay's financial binds and generate domestic growth of roughly 3 percent over the coming year. Exports, however, will, in our view, contribute only modestly to this growth. Prices for commodities and agricultural products are likely to remain depressed. Such Uruguayan staples as meat, wool, and rice will face strong, subsidized competition, according to Embassy reports. For example, the European Community, liquidating its overstock of subsidized frozen beef, recently sold 100,000 tons to Brazil at below-market prices—equivalent to 80 percent of Uruguay's entire beef sales last year. Moreover, the glut in world markets for Uruguay's agricultural exports will largely negate the benefits Montevideo can expect as a result of the weaker dollar. Finally, lackluster US growth bodes ill for increasing sales in the United States. []

Over the longer term, Uruguay's export sales, in our view, are likely to remain sluggish, returning to their 1983 level only by the end of the decade. Both traditional and newer agricultural products will face slack world demand and increasing trade barriers. Furthermore, Montevideo's large sales to historically unstable markets in Argentina and Brazil will make it vulnerable to economic downturns in those countries. Labor agitation in the export sector may also prevent Uruguay from boosting foreign sales. The US Embassy reports that \$1.4 million worth of fruit rotted at docks during a strike in June. If Montevideo accedes to constant union pressure for higher wages, the resulting inflation will make exports less competitive. Finally, while international creditors probably will refinance debt to keep the country solvent, they are unlikely to lend funds for investment in more efficient production techniques. []

We concur with the Embassy's assessment that Montevideo will maintain its current export policies at least through the end of its IMF-supported program in early 1987. Lethargic foreign sales may erode enthusiasm for the strategy, but Sanguinetti probably will see no alternative but to stay the course and intensify calls for market access at meetings of the GATT and the Cartagena Group. The Embassy reports Uruguay already plans to link trade to finance issues and will try to focus condemnation of protectionism on the United States during the GATT ministerial meeting in September. Montevideo is likely to intensify complaints against US agricultural export subsidies and textile quotas before the conference, although Sanguinetti's desire to maintain friendly relations with Washington will temper the rhetoric. []

25X1

25X1

25X1

25X1

Secret

Secret

Belize: Factionalism Plagues Opposition Party [REDACTED]

25X1

The deepening ideological split between the leftist and conservative factions of the opposition People's United Party (PUP) is threatening party leader George Price's authority and making it easier for the leftists to maneuver for domination of the party. Encouraged by recent gains in their representation in the party executive, pro-Cuban leftists are trying to keep conservatives on the defensive and take advantage of increasing divisiveness to improve their position within the party. Although the conservatives remain in control for now, continued infighting could undermine their ability to limit further leftist gains. A strong leftist showing in December's Belize City Council elections could give the leftist faction momentum as it looks to national elections in 1989.

25X1

The PUP governed Belize throughout its 17 years as a self-governing British territory and the first three years of independence until its decisive defeat by the United Democratic Party (UDP) in December 1984. [REDACTED] the PUP's defeat—which only six incumbents were returned to the 28-member House—was in part due to its inability to overcome divisions between the leftist and conservative factions and its failure to win the support of Belize's increasingly young electorate, the majority of whom perceived the PUP as corrupt and inefficient. According to the US Embassy, the PUP was viewed as a closed organization, whereas the UDP vigorously recruited young supporters and encouraged participation, especially at local levels. The country's economic problems—including a recession in the sugar industry and more than 14-percent unemployment—also contributed to the former ruling party's defeat. [REDACTED]

25X1

25X1

Vying for Party Leadership

The PUP's loss of power has exacerbated the divisions between the conservative and leftist factions and made it difficult for it to define its role as an opposition party. Each faction continues publicly to blame the other for its electoral losses. The leftist

faction, headed by former ministers Said Musa and Assad Shoman, is trying to recover from its electoral setback—no leftists were returned to office—and increase its influence in the party by charging that Price and other conservatives are corrupt. The conservatives, headed by Price, have attempted to portray Shoman, Musa, and their supporters as Communists, according to US Embassy reporting.

[REDACTED]

25X1

Within the left itself, two factions are competing for influence. Although Shoman and Musa share similar political views, [REDACTED] they are divided over how to wrest control from party conservatives and move Belize farther to the left. Musa maintains a moderate public posture, tempers his leftist rhetoric, and appears willing to work within the party to take control. Nonetheless, he is pro-Cuban, advocates the establishment of diplomatic relations with Havana, and would clearly move Belize to the left should he ever head the government,

25X1

Recognizing that the largely conservative Belizean population is staunchly democratic and not receptive to radical solutions, Musa's strategy—which for now appears to have the most support among leftists—is to work within the PUP and reach power through the electoral process. [REDACTED]

25X1

25X1

25X1

For its part, the more radical faction within the PUP—headed by Shoman—is increasingly frustrated with Musa's moderate approach. Shoman is becoming more overt in his leftist views and his sympathies for Cuba and regional insurgent movements, according to the US Embassy. [REDACTED]

25X1

25X1

[REDACTED] Despite Shoman's often repeated threat to quit the PUP to form his own

25X1

Secret

ALA LAR 86-020
15 August 1986

Secret

25X1

party, he reportedly realizes that he does not have the necessary support outside his own district, and he probably is not willing to give up the chance to be a PUP candidate in future elections. [redacted]

25X1 Meanwhile, leftists were able to exploit divisions in the conservative wing to make limited gains in the party executive during the PUP convention last January. Musa was elected party chairman, and a close ally of Shoman was named to the influential post of youth organizer. [redacted]

25X1 [redacted] In our view, Price probably concluded that the influence of the leftists could not be denied and therefore conceded to the selection of the more pliable Musa as a concession to the left wing. Price's apparent cooption of Musa at the expense of Shoman also probably has increased the rivalry between the leftist leaders. Nonetheless, most PUP leftists agree that Musa's new position is an important first step toward their goal of dominating the party. [redacted]

25X1 Within the conservative faction, Price, who has headed the party since its birth in 1950, is under increasing criticism from his supporters, who want him to limit the influence of leftists in the party executive. [redacted] over the years he has been willing to make concessions to the left to foster party unity and to gain control over their actions, especially their dealings with Cuba. Nevertheless, dissatisfaction with Price's leadership on this issue caused conservative party leaders and former PUP cabinet ministers Louis Sylvester and Fred Hunter to leave the PUP to form the Belize Popular Party in January 1985. [redacted]

The Cuban Connection

Taking advantage of a weakened conservative wing, PUP leftists are taking steps to strengthen their long-standing ties to Cuba and Nicaragua in order to seek advice and financial assistance for future projects. Shoman and Musa have had difficulty recruiting significant numbers of students for scholarships to study in Cuba—reportedly some 60 Belizeans are studying there—and plan to sponsor courses and seminars at local Belizean colleges on the merits of

socialism. Shoman is the most active in maintaining foreign radical ties. [redacted]

[redacted] his plans to revitalize the Society for the Promotion of Education and Research (SPEAR) for leftist purposes. Through debates and seminars sponsored by SPEAR—under the direct control of Shoman—organizers spotlight leftist ideas and politicians and hope to foster a sense of solidarity with countries that have strong anti-US biases, according to US Embassy [redacted]

[redacted] While Shoman promotes open ties to Cuba and Nicaragua, Musa reportedly sees contacts at this time as a potential liability that, if made public, could be used against the leftists by the government.

[redacted] For its part, Cuba keeps a low profile in Belize but maintains close links to the PUP left wing. [redacted]

Havana probably fears that a higher Cuban profile would raise British concern [redacted]

Outlook

In our view, continuing intraparty divisions and a conservative wing weakened by defections are likely to further undermine Price's authority over the longer term and improve the prospects for an eventual leftist takeover of the PUP. Although Price is unlikely to step down as party leader in the foreseeable future, his efforts to paper over factionalism by making concessions to the left wing will enhance its position while further weakening the conservative wing. Unless Price and his supporters take decisive steps to limit further leftist gains within the party, leftists

25X1

25X1

25X1

25X1

25X1

25X1

25X1

25X1

25X1

25X1

25X1

25X1

25X1

Secret

24

Secret

could make a strong showing in the Belize City Council election in December and gain momentum as they look ahead to the national election in 1989. [redacted]

25X1

Shoman and the radical faction of the PUP left wing probably will seek increased Cuban assistance for their organizational activities through SPEAR and perhaps attempt to persuade labor and youth groups to serve as Cuban front organizations. [redacted]

25X1

[redacted]

25X1

[redacted] Meanwhile, Cuba, in our judgment, will remain reluctant to provide more than token assistance to Belizean leftists until the PUP, under control of either Shoman or Musa, regains control of the government. [redacted]

25X1

[redacted]

25X1

25X1

Secret

Secret

Briefs

Cuba**Debt Rescheduling Difficulties** ☐

25X1

Cuba has met with only limited success in rescheduling official and commercial hard currency debt, and apparently is facing a severe hard currency shortage. In July, Havana was forced to agree to tough performance targets—including a current account surplus and a cut in real imports—before rescheduling current maturities and official debt coming due from the 1983 rescheduling. The Paris Club creditors committed no new lending and refused to refinance debt due from the 1984 and 1985 reschedulings. Negotiations with commercial creditors have been even less successful. ☐ the creditors have called Havana's requests for new lending excessive and have insisted that interest payments be kept current during rescheduling talks. ☐

25X1

25X1

The recent defaults reflect the rapid erosion of Havana's hard currency reserves, which we believe total far less than Havana's claim of \$150 million. President Castro may believe that delays in payments will cause commercial creditors to cave in to Cuba's rescheduling terms, but the suspensions are more likely to alienate other creditors and essentially freeze Cuban access to critical Western imports this year. Japanese traders threatened to halt shipments to Cuba and publicize Havana's untrustworthiness after Havana suspended payments on short-term commercial credits last month, according to the US Interests Section. ☐

25X1

Argentina**Nuclear Disarmament Initiatives** ☐

25X1

President Alfonsin has become increasingly vocal on nuclear disarmament issues in recent months. US Embassy and press reports indicate that he has stepped up his efforts within the nonaligned "Group of Six"—an ad hoc body comprising Argentina, India, Greece, Sweden, Tanzania, and Mexico—to pressure the superpowers to adhere to existing arms limitation treaties and ban nuclear weapons testing. Alfonsin has publicly stated that he will soon propose that the Group of Six establish a permanent committee in either New York or Geneva to monitor US and Soviet nuclear activities. ☐

25X1

25X1

☐ Alfonsin also intends to promote a Latin American conference on disarmament in Argentina this fall. ☐

25X1

We believe that Alfonsin's initiatives are designed to support key foreign and domestic policy objectives. His public stance on disarmament reflects Argentina's traditional independence on nuclear issues and establishes Alfonsin as a strong opponent of nuclear weapons. He probably hopes that his statements will counter international concerns about nuclear proliferation in the region and ease pressure

25X1

Secret

ALA LAR 86-020
15 August 1986

Secret

on Argentina to sign the Nuclear Non-Proliferation Treaty. In addition, his leadership within the Group of Six and new activism on disarmament issues may temper opposition criticism of his administration's fundamentally pro-Western foreign policy and could bolster his standing with leftist critics both within and outside of his own party.

25X1

Guatemala**Private Sector Concerns**

25X1

President Cerezo's efforts to regain private-sector confidence have been hurt by the government's monetary policy and by uncertainty about land reform.

25X1

25X1

The President's inability to deal effectively with the private sector is likely to increase investment jitters and hamper efforts to capture export earnings that remain outside of the country. Guatemala's huge budget deficit and heavy debt service probably will make continued monetary expansion necessary, fueling inflation and highlighting the government's inability to manage the economy. Widespread knowledge of this practice is likely to encourage merchants to ignore exhortations to limit price increases. Cerezo's credibility could be further harmed by his ambiguous handling of the sensitive land reform issue. While he is unlikely to institute a radical program, he may hope to use popular protests to push for less drastic measures—such as a tax on unused farm land—later in his term.

25X1

Colombia**A Break With Tradition**

25X1

Members of the opposition Conservative Party have refused three minor Cabinet posts in President Barco's new administration. Barco, whose Liberal Party won landslide victories in both congressional and presidential elections, had offered the posts in compliance with a Constitutional provision requiring minority party participation. Over a period of years, Colombian political scientists and leaders of both parties have gradually come to share the belief that the 28-year-old provision has stifled debate and restricted the ability of the opposition to challenge the government. Consequently the Conservatives' decision to abstain is more a reflection of this perception than a display of anger over the relatively minor posts

Secret

Barco offered them. The Conservatives, mindful of the need to maintain party unity in the face of the reluctance of some members to forgo the benefits of patronage and governmental exposure, are likely to accept some non-Cabinet-level administrative positions in the Liberal government. Nonetheless, their withdrawal from a formal partnership role could foster a more open political environment.



25X1



25X6

Page Denied

Next 1 Page(s) In Document Denied

Secret

Secret